

**Signing Ceremony of Memorandum of Cooperation between Secondary
Mortgage Corporation, Thailand and Cagamas Berhad, Malaysia**
6th August 2018, Thailand

CAGAMAS' JOURNEY TO SUCCESS

Datuk Chung Chee Leong
President/Chief Executive Officer





OVERVIEW OF HOUSING FINANCE MARKET IN MALAYSIA

Housing Finance Market



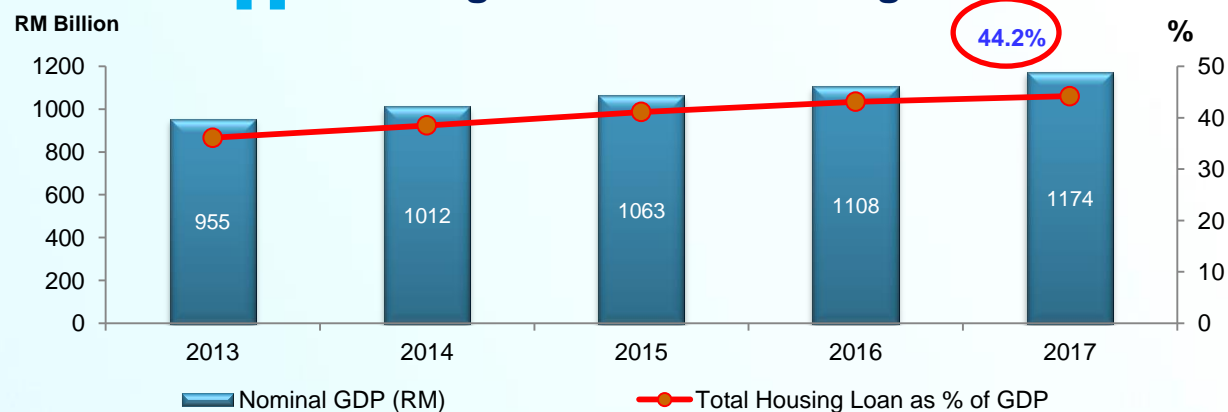
Mortgage Originators in Malaysia:-

Private sector plays a dominant role in development in Malaysia

Private Sector	Public Sector	Secondary Mortgage Corporation
<ul style="list-style-type: none"> Commercial Banks (Conventional and Islamic Banks) Development Financial Institutions Others : Insurance Companies, Co-operatives, Developers 	<ul style="list-style-type: none"> Public Sector Housing Financing Board 	<ul style="list-style-type: none"> Cagamas Berhad



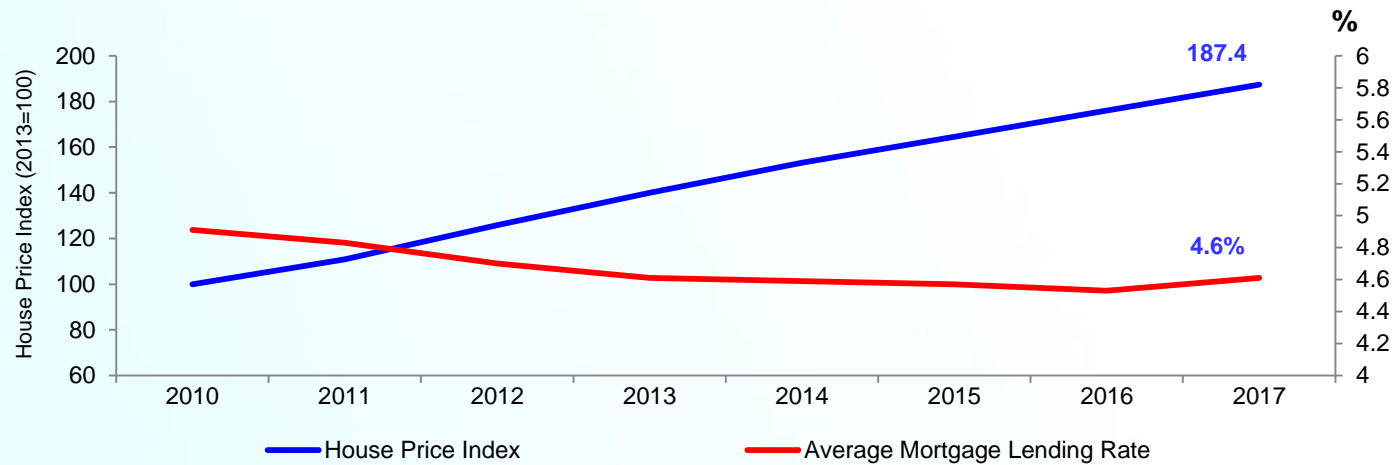
Housing Loans Outstanding to GDP:-



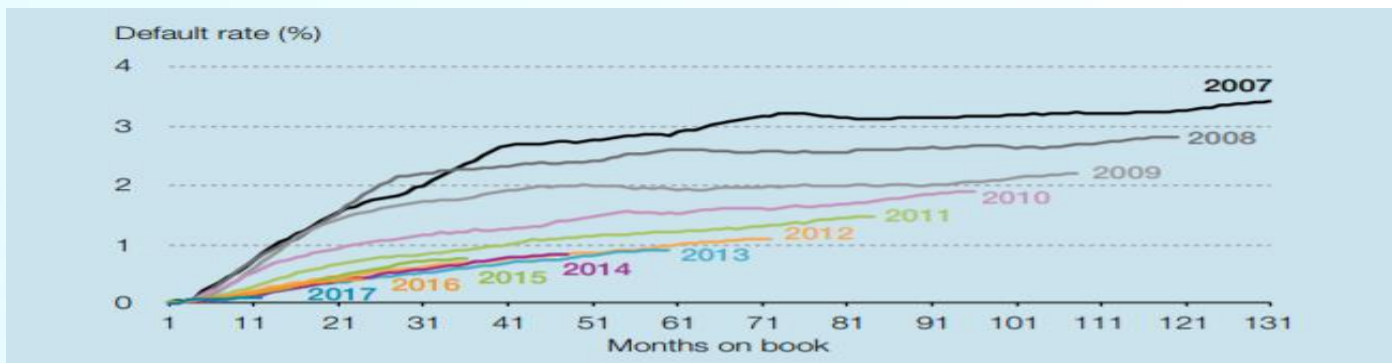
Housing Finance Market (cont'd)



House Price Index and Mortgage Rate :-



Default rates of housing loans improved since 2007:-



Characteristics of Housing Loans in Malaysia

	In the 80's	Now
Tenure	10-15 years	Max 35 years
Interest Rate	Fixed (8% -12% p.a) Monthly rest	Floating - Daily rest <u>or</u> Teaser rate for first few years
Repayment	Amortising	Amortising <u>or</u> Step-up Repayment Schedule
Structure	Conventional	Conventional and Islamic
LTV	≈ 80%	≈ 90%
Auction Process	2-3 years	Within 1 year
Special Housing Loans	Quota for individual/banks for housing loans below RM25K	No quota

Home Ownership: Government's Policy

Government Policy

- Increase supply of housing to the market
- Provision of adequate, affordable and quality houses
- Enhancing accessibility to housing finance supply
- Encourage home ownership

Objective of housing policy

- to increase accessibility to adequate, affordable and quality houses

Actively promote home ownership since 1970s

- especially among the lower and middle income groups



Measures Introduced by the Government

Over the years, the Government continues to introduce new measures to facilitate the housing finance system and also to curb house price speculations.

Among the measures introduced :

1980

Withdrawal from account 1 is allowed in the Employees Provident Fund for the purchase of a house

2007

Exemption of real property gains tax
50% exemption of stamp duty on purchases of houses below RM250, 000

2009

Personal tax relief of up to RM10,000 a year for three years on interest paid on housing loans

2013

70% loan to value (LTV) ratio for 3rd property or above

Ban of developer's interest bearing scheme (DIBS)

Maximum loan tenure of 35 years

Ongoing

Provision of adequate, affordable and quality houses for all Malaysians in various income levels with the introduction of many affordable housing schemes

Government Assisted Financial Schemes

- Provision of adequate, affordable and quality houses for all Malaysians in various income levels with the introduction of many housing schemes

Schemes	Service/Product Offering
Housing Credit Guarantee Scheme	<ul style="list-style-type: none"> ▪ Guarantee scheme to enable applicants above 18 years old with good repayment capability but without fixed income, to purchase their first home priced up to RM300,000(USD75,000)
My First Home Scheme	<ul style="list-style-type: none"> ▪ Guarantee scheme that enables applicants below the age of 40 years with monthly income of up to RM5,000 (USD1,250) - for single and RM10,000 (USD2,500) – for married couple to purchase their first home of up to RM500,000 (USD125,000).
Youth Housing Scheme	<ul style="list-style-type: none"> ▪ Financing facility with guarantee facility to assist single or married youths between 21 to 45 years old, with income of up to RM10,000 (USD2,500) to own their very first home. The Government is also to aid monthly instalments of RM200 (USD50) per month for a period of 2 years to help buyer to pay for the instalment or interest of the mortgage.
Housing Special End Financing Scheme	<ul style="list-style-type: none"> ▪ Financing facility to assist applicants above 21 years old to purchase homes with flexible loan repayment.

Role of Regulator

The **Central Bank of Malaysia** take a responsible and measured approach to ensure Malaysia's housing market remains strong and stable.

The regulatory enhancements include:

Strengthen risk management standard and corporate governance practices by financial market players

Effective policies in place for development of housing finance system

Comprehensive and robust regulatory and supervisory framework and effective surveillance



Measures Introduced :

Guidelines on Responsible Financing



Maximum tenure for home financing is 35 years.



Affordability assessment takes into account all existing debt obligations, including financing from all FSPs and other non-bank entities.



No prescribed debt-service-ratio (DSR) level but FSPs shall ensure that the DSR level is prudent enough to prevent the customers from becoming over-leveraged.



Proof of income may include salary slip, EPF statement, savings account statement or income tax submission.



Borrowers with no permanent employment or are self-employed may be required to provide evidence of income for a period of at least 6 months.



PRE- ESTABLISHMENT OF CAGAMAS

The market situation in mid 1980's

Funding mismatch in financial institutions resulting in liquidity crunch

Financial institutions were not lending to homebuyers despite their demand

Limited funding source in the market – no bond market



There was a need in the market for an institution to:-

- Function as intermediary between primary lenders and investors of long term funds; and
- Take on role of credible issuer of mortgage securities

The move to a Secondary Market

- As a direct result of the needs of the market, Cagamas Berhad was incorporated in December 1986 as the National Mortgage Corporation with the following objectives:-



1

Alleviate the liquidity problem and reduce funding mismatch within the banking sector

2

Reduce the risk of unfavorable changes in the difference between the cost of funds of the primary lenders and the rate of return on their housing loans

3

Spearhead development of the private debt securities market



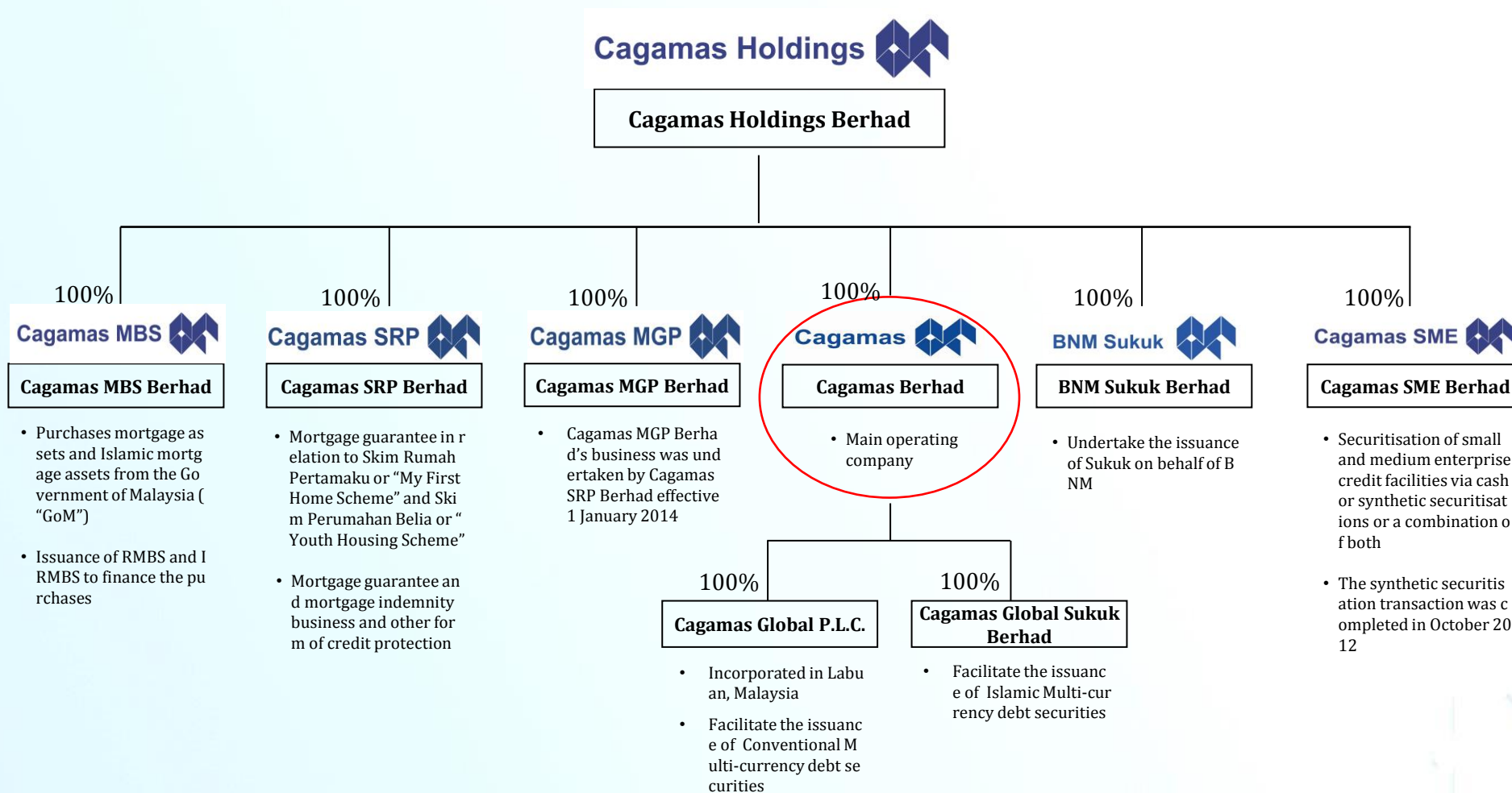
ESTABLISHMENT OF CAGAMAS

Company Overview

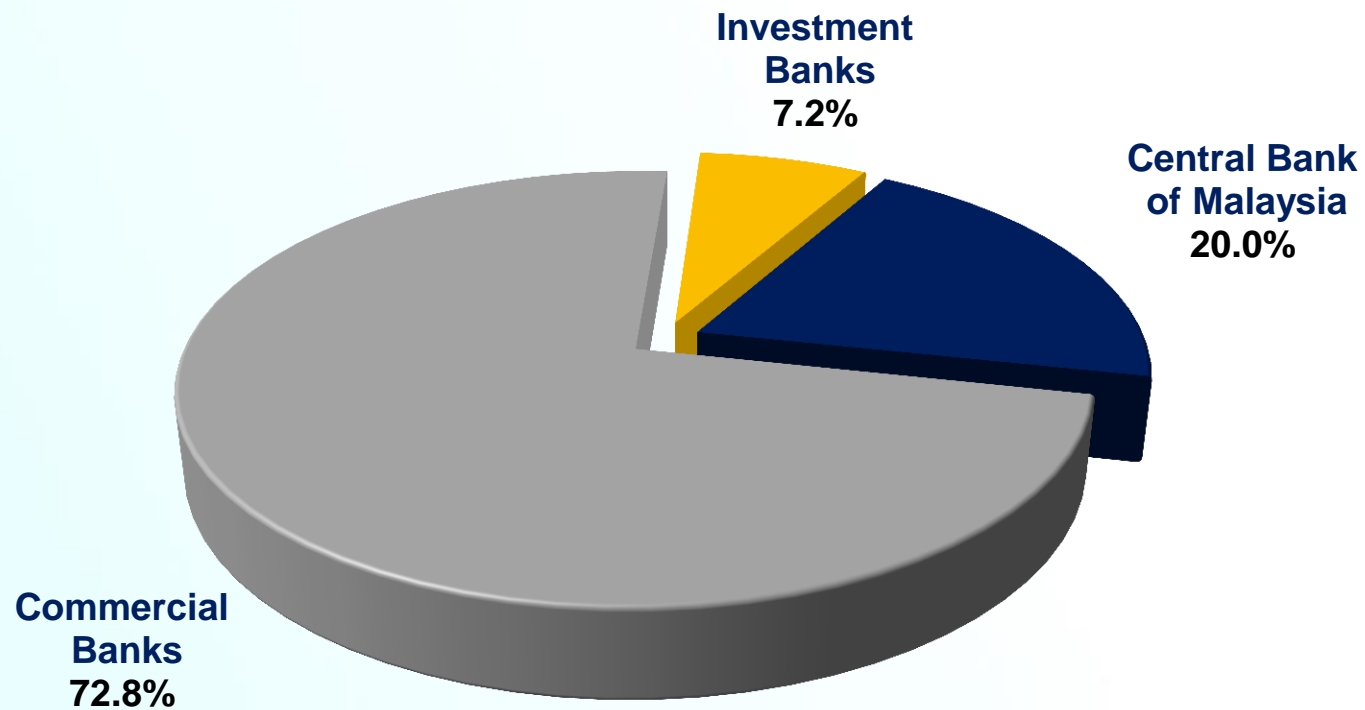
Entity Name	Cagamas Berhad
Shareholders	Bank Negara Malaysia (20%) Commercial and Investment Banks (80%)
Credit Rating	A3 Stable (Moody's) / AAA (RAM) / AAA (MARC)
Date of Incorporation	2 December 1986
Objectives	<ul style="list-style-type: none"> ▪ Established by Bank Negara Malaysia to support the national agenda of increasing home ownership and promoting the development of Malaysia's capital markets ▪ Development and promotion of Islamic finance within Malaysia
Business Model	<ul style="list-style-type: none"> ▪ Through the issuance of conventional bonds and sukuk, Cagamas funds the purchase of housing loans and house financings through its Purchase With Recourse (PWR) and Purchase Without Recourse (PWOR) schemes. ▪ By doing this, Cagamas is able to provide liquidity to financial institutions at a competitive cost, encouraging them to provide additional housing loans and house financings to new applicants at an affordable cost. ▪ The PWR and PWOR schemes have now been expanded to include other loans and financings such as SME loans, infrastructure financing and industrial hire purchase / leasing receivables. ▪ Guarantee housing loans and home financings under Mortgage Guarantee Programme (MGP)

Structure of the Cagamas Group

Cagamas is a wholly owned subsidiary of Cagamas Holdings Berhad and remains the core revenue and profit generator for Cagamas Group



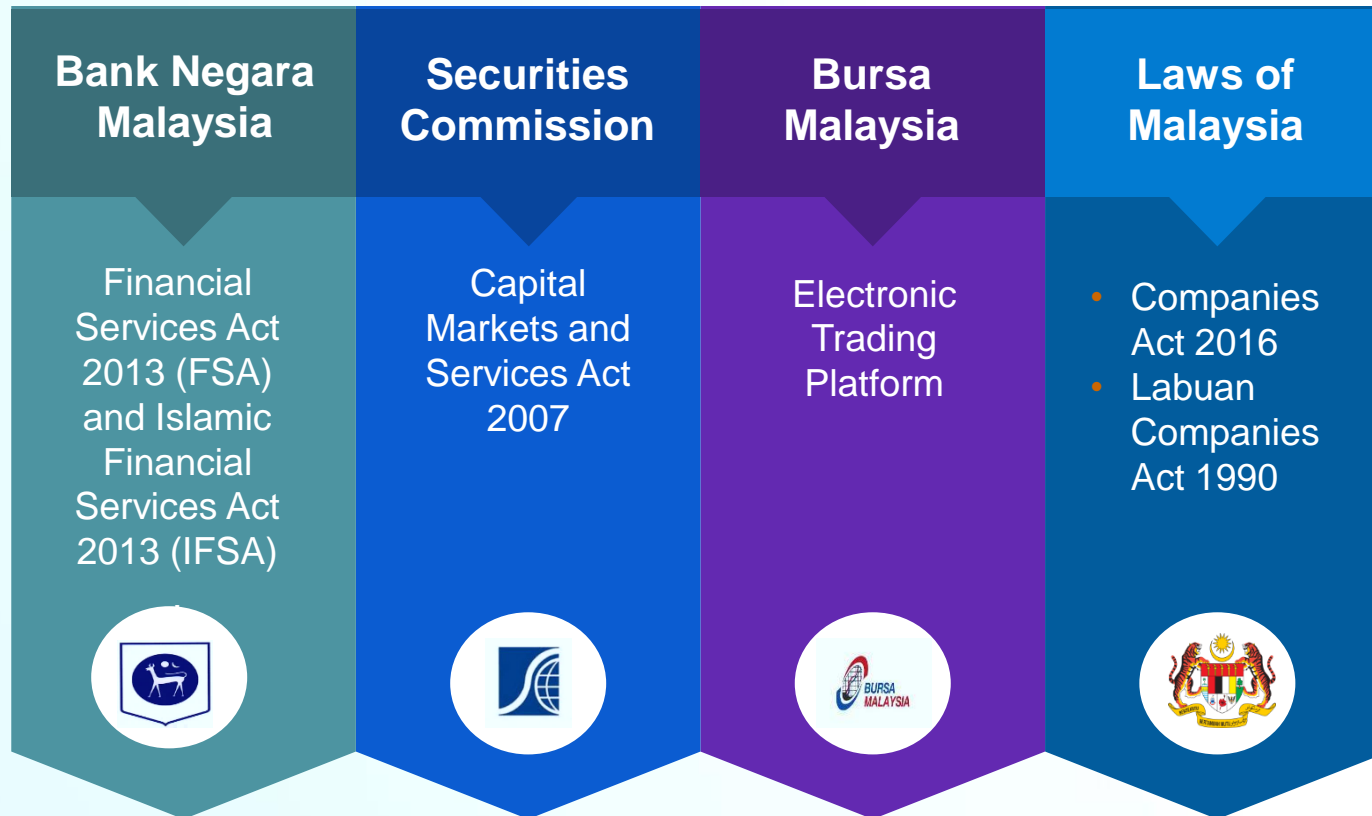
Ownership Structure



Regulatory Environment



Governed by the following regulations under the respective authorities:-



Regulatory Environment (cont'd)



Regulatory support received :-

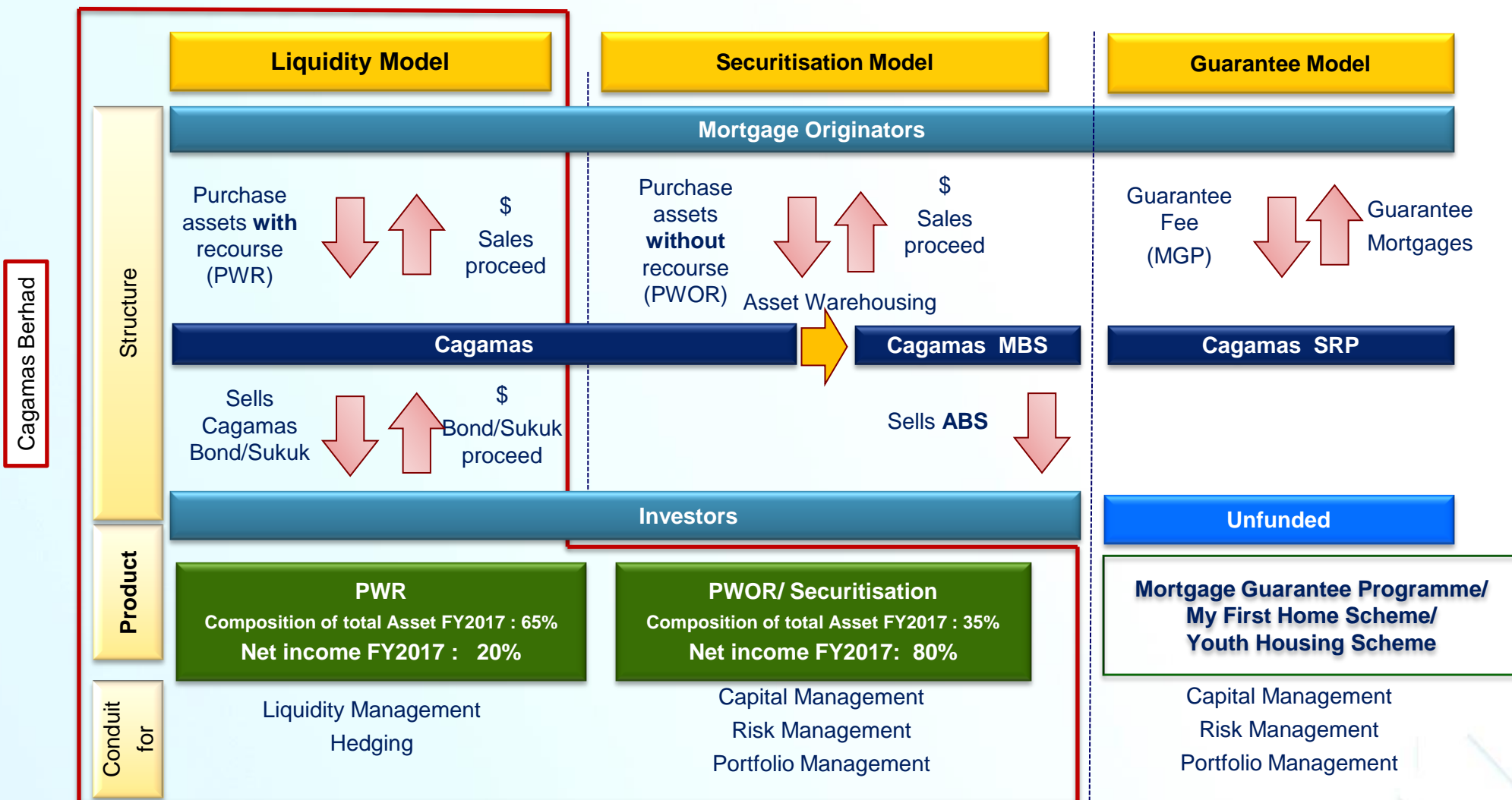
Before 2004

- 10% risk weight under the Risk Weighted Capital Ratio framework
- Class-1 liquefiable assets status under the liquidity framework
- 4% yield slippage under the liquidity framework
- Exempted from Single Customers Credit Limit (SCCL)
- Mode of primary issuance is through Principal Dealers' network
- Holdings by insurance companies classified as low risk asset
- A scheduled institution under Banking Financial Act (BAFIA)
- Access to domestic interbank money market (sole corporate participant)

Current

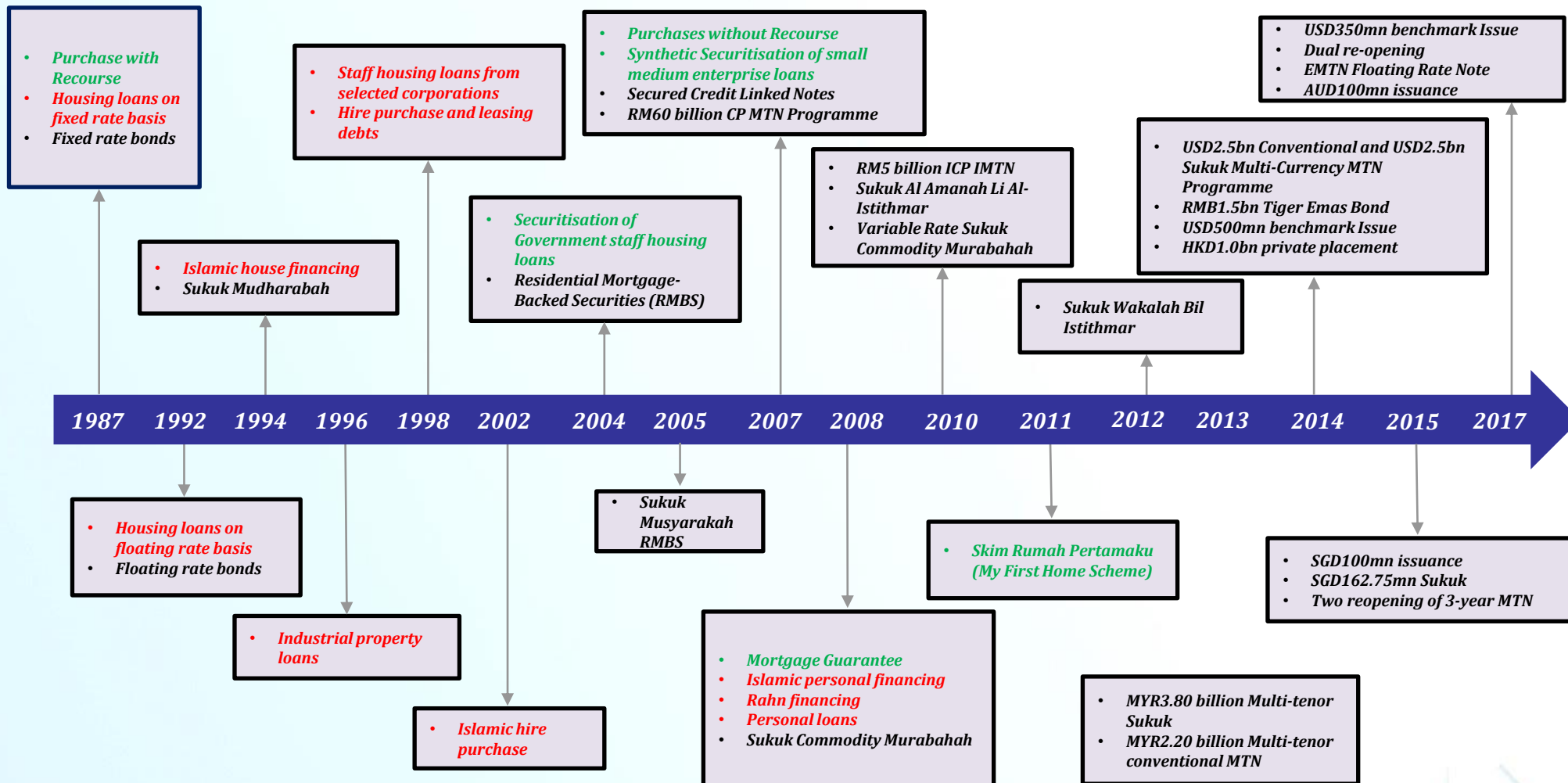
- 20% risk weight under the Risk Weighted Capital Ratio framework
- Class – 2A under Liquidity Coverage Ratio (LCR)
- Liquidity Framework superseded by Liquidity Coverage Ratio (LCR)
- Subject to SCCL of 25% of the total capital funds
- Mode of primary issuance is not through Principal Dealers' network
- Holdings by insurance companies classified as credit facilities
- Registered persons status under the Capital Markets and Services Act 2007 (CMSA)
- Access to domestic interbank money market (sole corporate participant)

Strategic Business Model



Establishing New Products for Market Development

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Note: Structure in GREEN
Asset in RED
Bond / Sukuk in BLACK



ROLES & INITIATIVES

Roles in Housing Finance System

1

Providing liquidity and hedging to mortgage financiers – PWR programme

2

Promoting origination of longer tenure house financing

- Longer tenure financing of up to 35 years
- Demand for houses has strengthened and house financing is more affordable

3

Generating strong competition among FIs to grant house financing. Provide access to competitively priced funds, resulting in easy access to affordable house financing (particularly the low cost sector)

4

Developing innovative structures for mortgage financiers – mortgage guarantee under the My First Home Scheme (SRP) and Youth Housing Scheme (SPB) to promote home ownership among young working adults

5

Linking the mortgage market to the capital market – development of the Residential Mortgage Backed Securities (RMBS) market for both conventional and Islamic



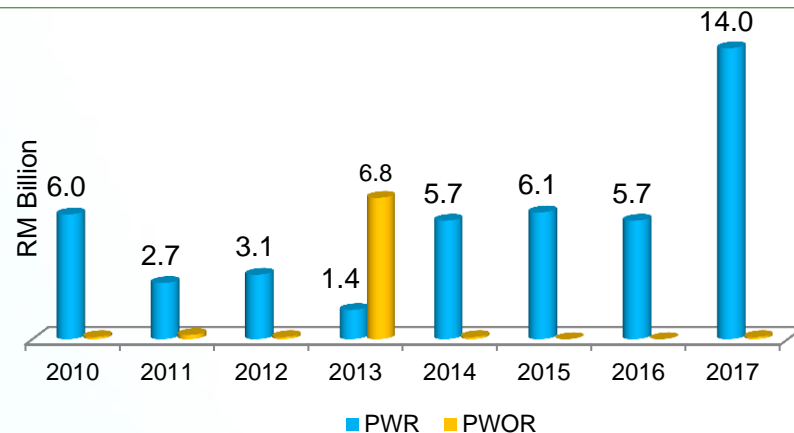
Roles in Housing Finance System (cont'd)

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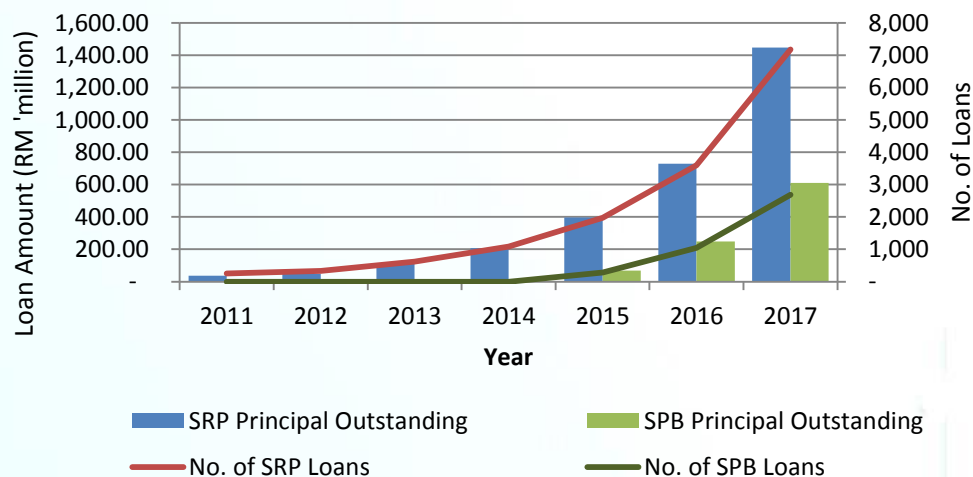
Asset Purchased of PWR/PWOR

- Significant PWR purchase of RM14 billion in 2017 was due to FIs meeting net stable funding ratio (NSFR) for more stable funding requirements by 2019 and the need to maintain Liquidity Coverage Ratio (LCR) as part of implementation of BASEL III regulations.



Mortgage Guarantee Facility by CSRP Berhad

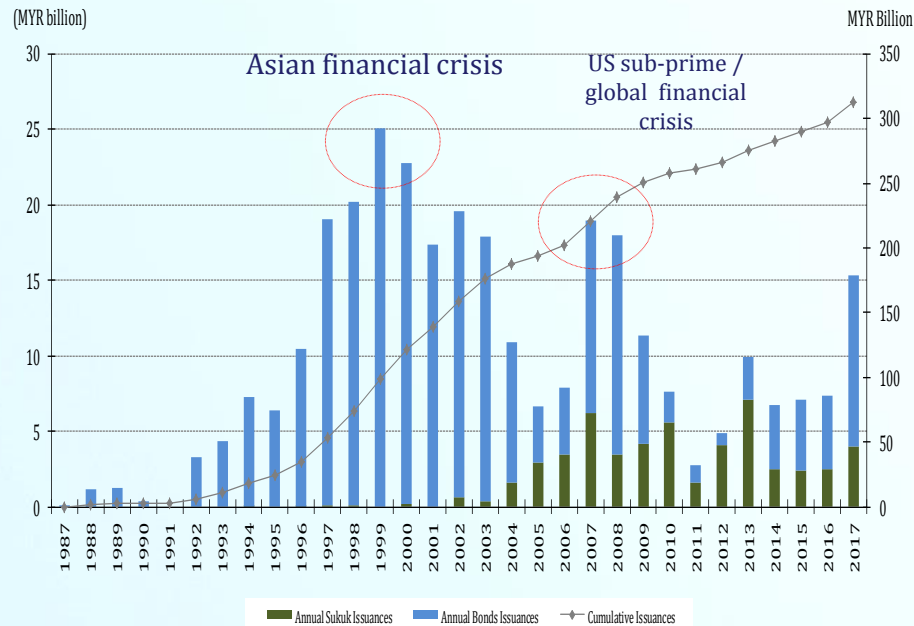
- Significant growth in both SRP and SPB since 2015
- No deterioration of credit profile for both schemes
- Government continue to support schemes via allocation of guarantee fee fund
- As at 31 Dec 2017, guarantee provided by CSRP has enabled 9,840 individuals/household to own their first home



Purchases and Issuances



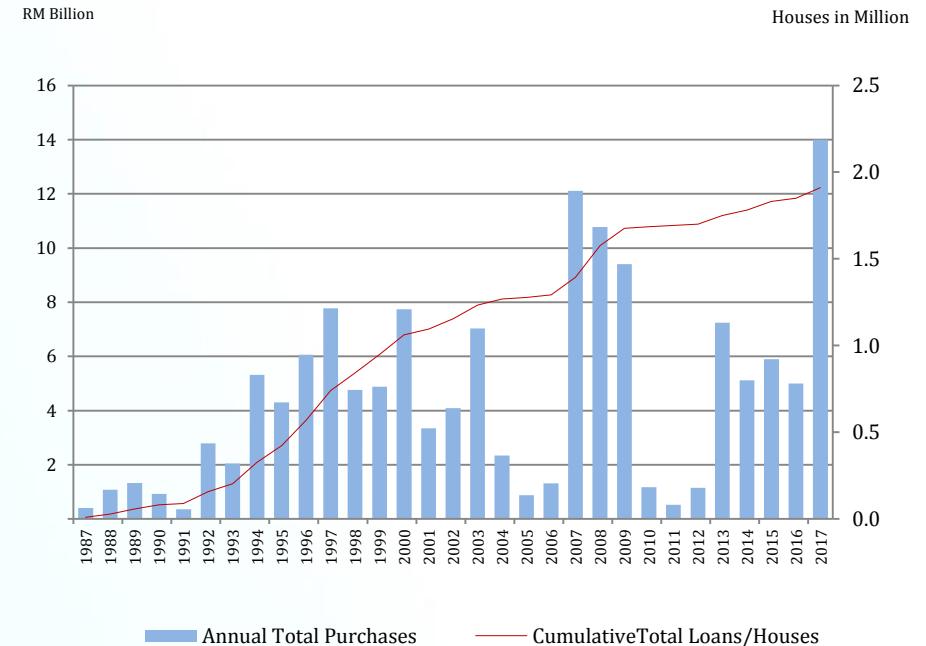
Total Issuances



- Issued **MYR312.1 billion** to the financial market and successfully redeemed **MYR272.5 billion** with no default .



Cumulative Refinanced Housing Loans



- Cumulatively refinance housing loans in the secondary market equivalent to **MYR142 billion** or around **1.9 million houses** .

Proactive Asset and Liability Management

Match-Funding Policy

All assets purchases funded by bonds of matched size and duration

Liquidity Ratio

Ability to pay off short term debt obligation. Ratios are higher than 1.0

FAST Member

Facility Agent of its own debt securities as a FAST member

Duration Gap

The duration gap of the Company shall not exceed 6 months

Approved Interbank Institution

Interbank borrowing and repurchase agreement (REPO) as Approved Interbank Institution

RENTAS Member

Intraday credit facility from BNM as RENTAS member

Liquidity Gap Limit

Net funding requirement by assessing all cash inflow against outflows

Registered Person" under CMSA

Issuance and distribution of its own debt securities as "Registered Person" under CMSA

Strong Shareholders' Fund (SF)

Strong SF as additional source for liquidity needs

Proactive Asset and Liability Management

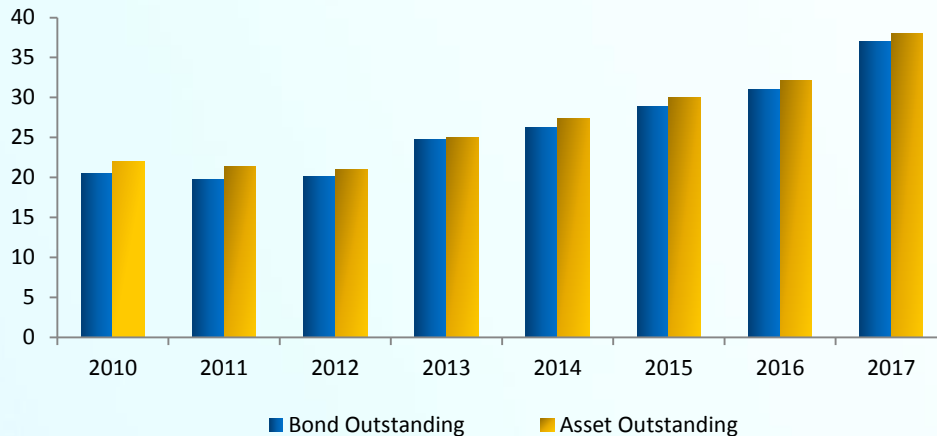
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(cont'd)



Outstanding Bond/Sukuk and Assets

(MYR billion)

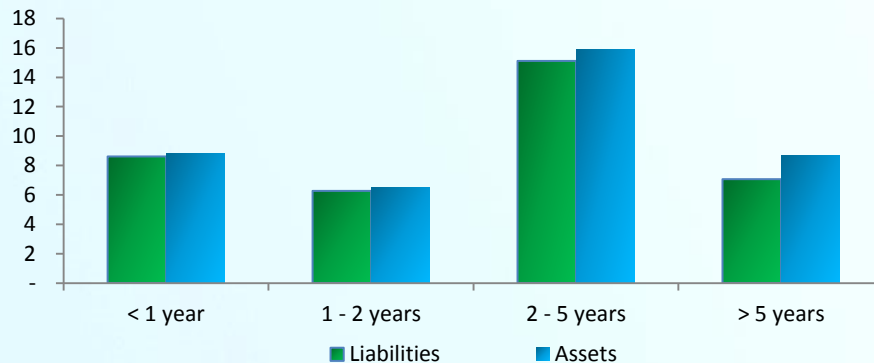


- Cagamas practices a **strict match-funding policy** where all asset purchases are funded by bonds/ sukuk of matching policy size, duration and self- sufficient in cash flows
- Cagamas also imposes a **duration gap limit** to manage liquidity and interest/profit rate risk



Maturity profile of Bond/Sukuk and Asset

(MYR billion)



- The maturities of the assets and liabilities are also matched as close as possible
- Cagamas also places **limits on maximum shortfall (30% of shareholders' funds)** to meet maturing liabilities

Our Initiatives to Diversify Investors Base and Funding Avenue

1

Provision of competitively priced liquidity vis a vis funding costs via successful issuance of investment grade bonds and sukuk

2

Promote development of bond market through:

- Issuance of various type of conventional and Islamic debt instruments across tenures in multiple currencies
- Promote efficient and robust price discovery for establishment of a reliable yield curve based on frequently traded bonds and sukuk in the secondary market

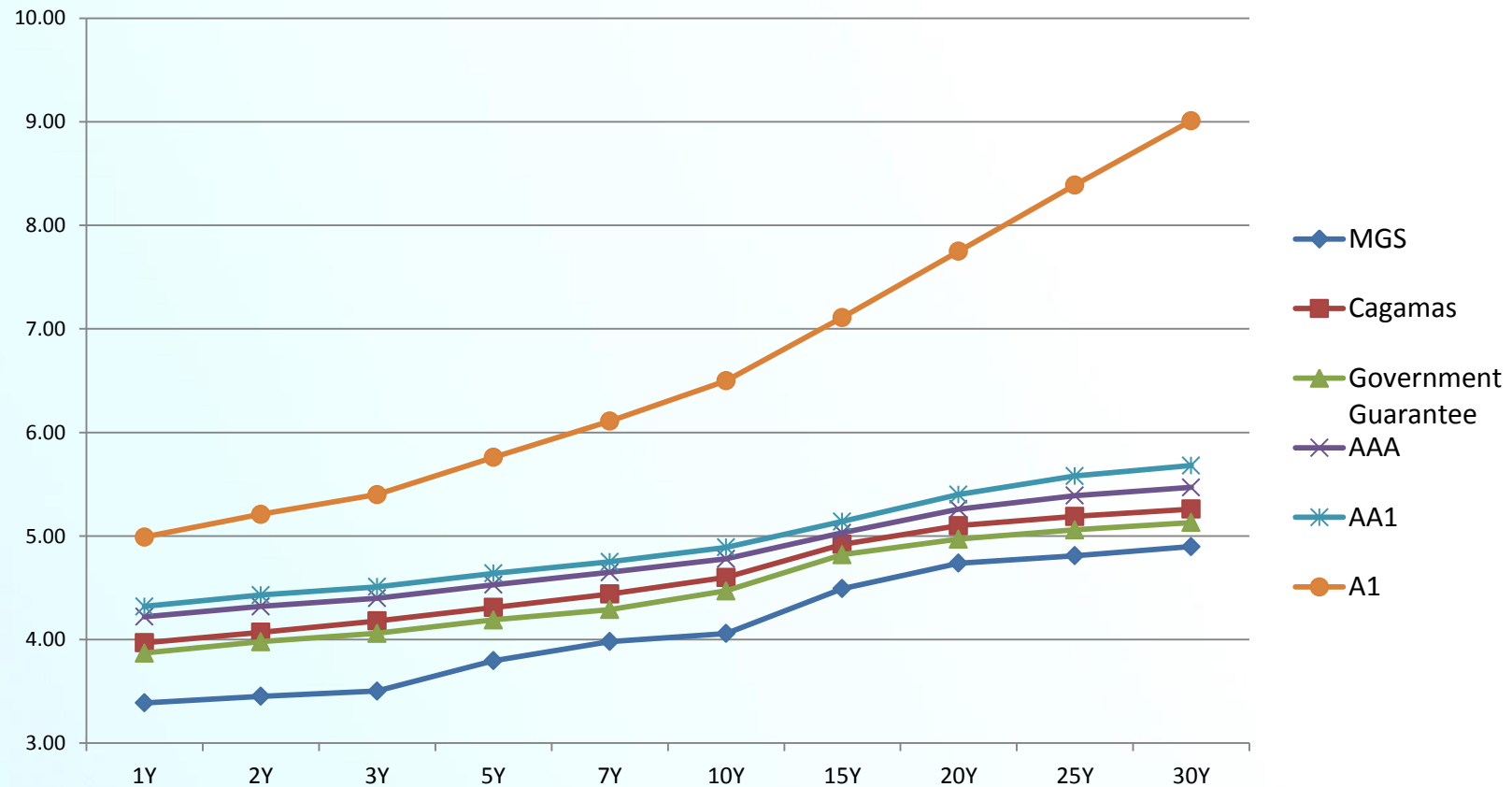
3

Promotion of secondary liquidity for outstanding bonds and sukuk via:

- **Reopening of existing stock**
Enlarged existing tranche size would encourage trading activity and meet the prerequisite minimum size for inclusion into widely followed local currency bond indices
- **Inclusion of Cagamas bonds in widely followed indices**
Promote greater visibility of the Company's debt securities particularly among international investors
- **Establishment of Bloomberg and Reuters pricing platform initiative**
Widen market reach and enhance price dissemination across the globe

Cagamas Bond Yield

Cagamas bond yield comparison against Malaysia Government Securities (MGS), Government Guaranteed, AAA, AA1 and A1 Corporate Bonds & Sukuk (CBS)*



*As at 31 Dec 2017

Establishment of EMTN in 2014

(Multicurrency Medium Term Note Programme)



Programme Objectives

- Widening the Company's investors base to reduce over reliance on single benchmark for pricing
- Diversify funding sources
- Funding of potential purchase of non MYR asset
- Developmental role in deepening and broadening the Malaysian and international debt capital market
- Achieve competitively priced funding from international liquidity pool



Programme Features

Type	Conventional	Islamic
Programme Size	USD2.5 billion	USD2.5 billion
Tenor	Perpetual	Perpetual
Rating	A3 by Moody's	A3 by Moody's
Issue format	Regulation S only	Regulation S only
Governing Laws	English Law	English Law

Investor's Profile based on Total Investor

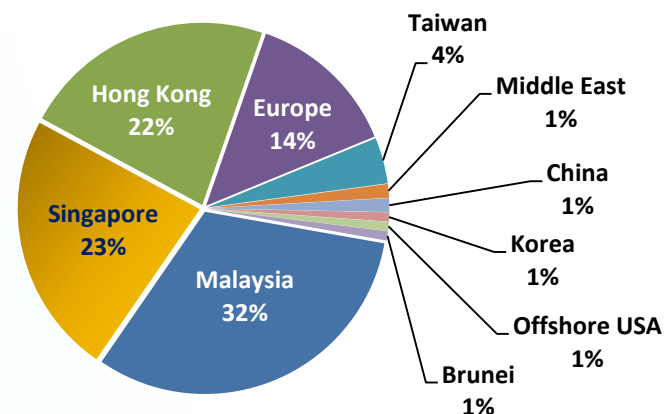
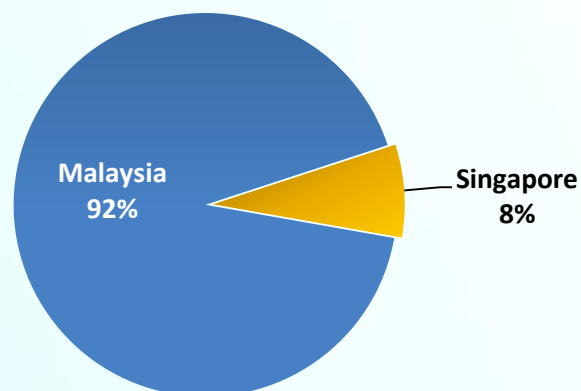


Before Establishment of EMTN

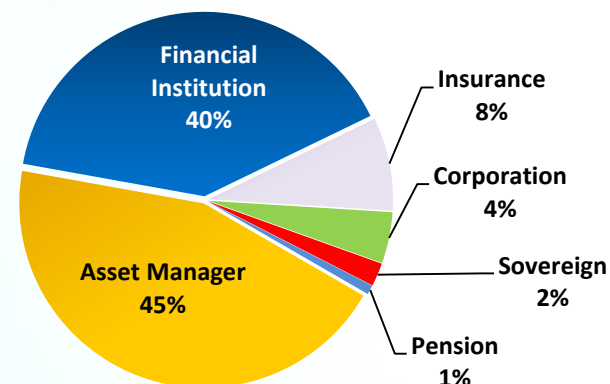
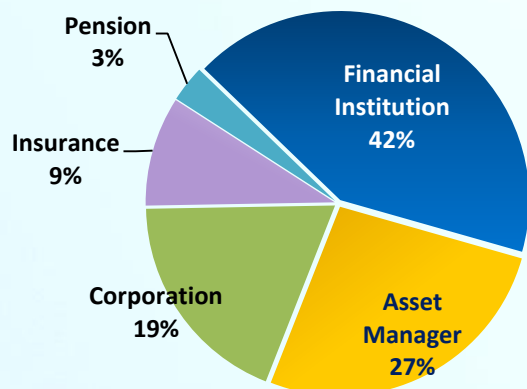


After Establishment of EMTN

By Country



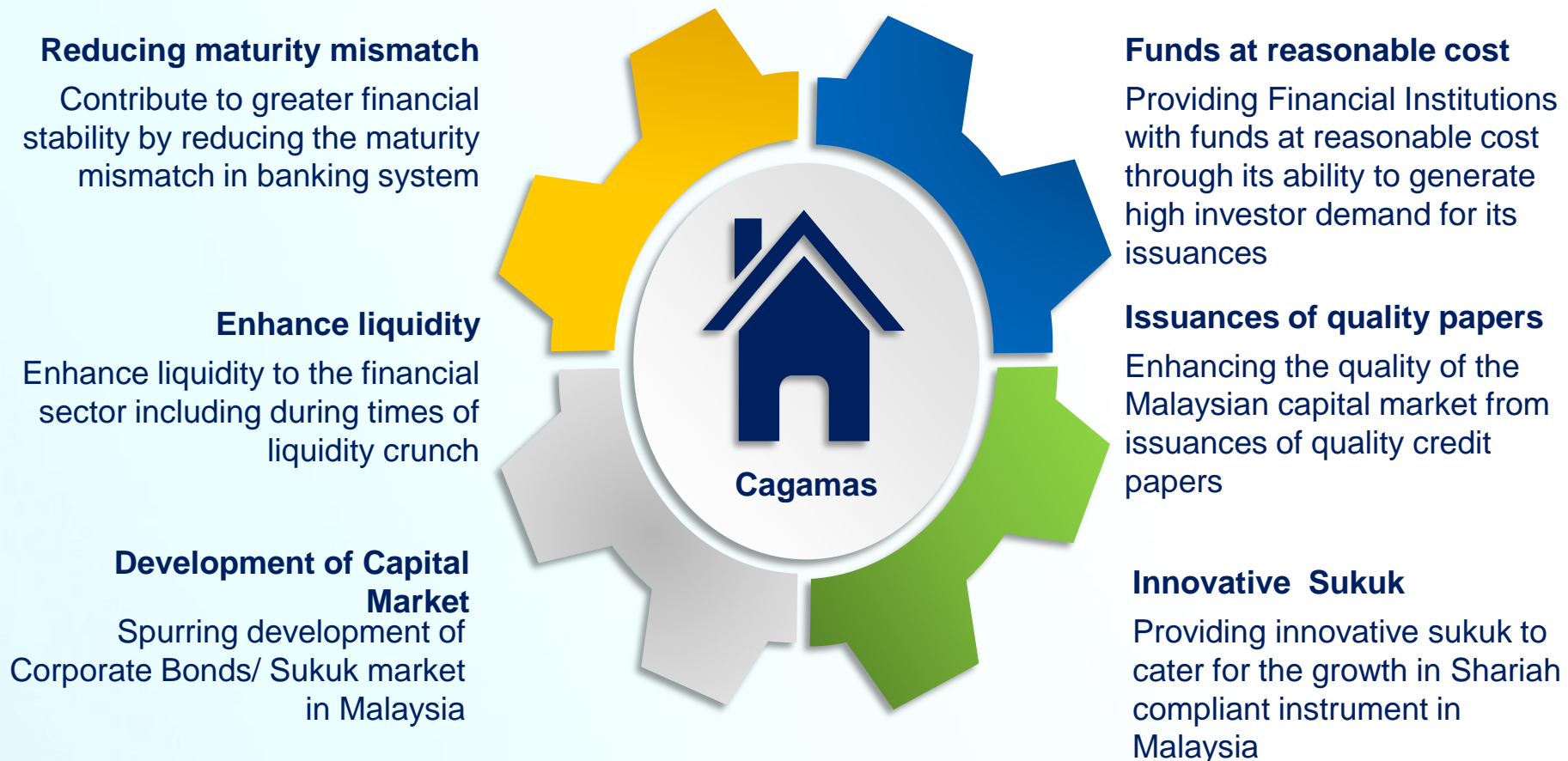
By Type





IMPACT OF CAGAMAS' ESTABLISHMENT

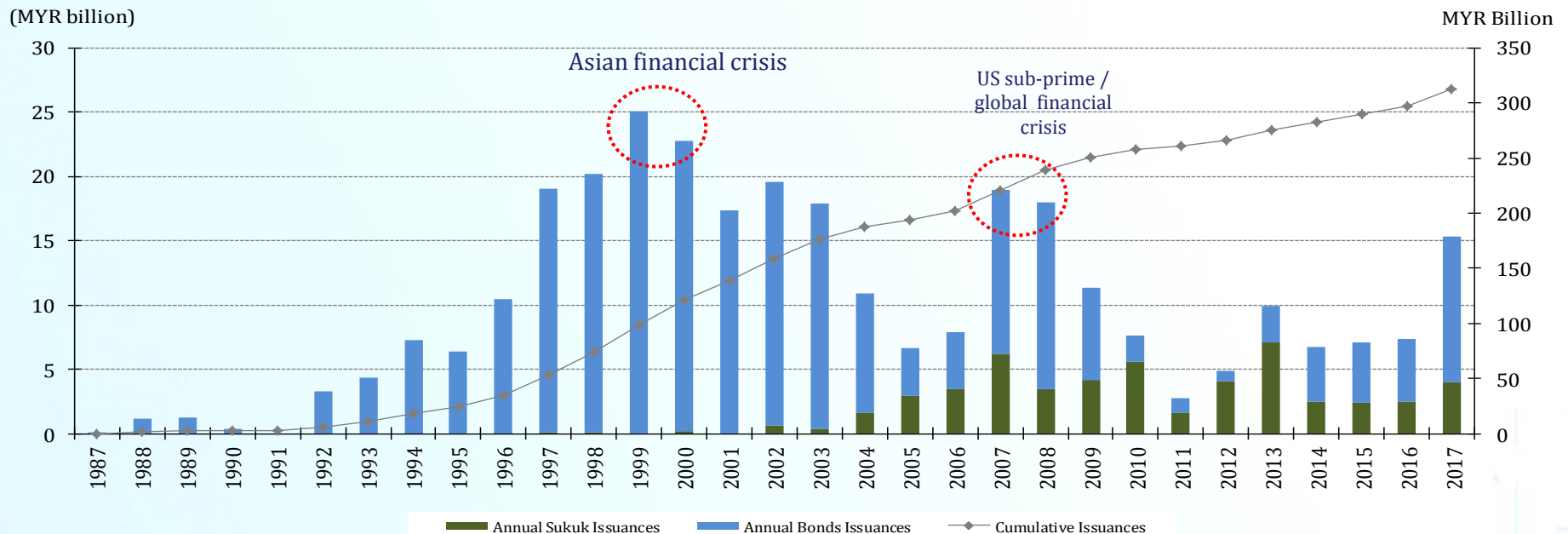
Impact of Cagamas' Establishment



Systemically Important to Domestic Financial System...

underscored by its dual function as liquidity provider and as a leading issuer of conventional and debt securities and sukuk

- Provide credit and portfolio risk management solutions
- Provide capital management solutions
- Conduit to remove systemic risk in the financial sector
- Conduit for best practices & setting up of standards – development of conforming financing standards
- Cagamas Group has issued papers worth MYR312.1 billion to the financial market and has successfully redeemed MYR272.5 billion with not even a single technical default as at December 2017





KEY SUCCESS FACTORS

Key Success Factors

Cagamas Key Success Factor

Solid financial standing & shareholding

- Profitable going concern
- Strong shareholders equity of RM3.4 billion as at 31 Dec17
- High RWCR of over 20%
- Strong shareholders in the form of CBA and FIs

Strong management team

- Experienced and dedicated professional team
- Result oriented and performance driven culture
 - Robust risk management and corporate governance structure

Support given by regulators

Implicit and explicit support given:-

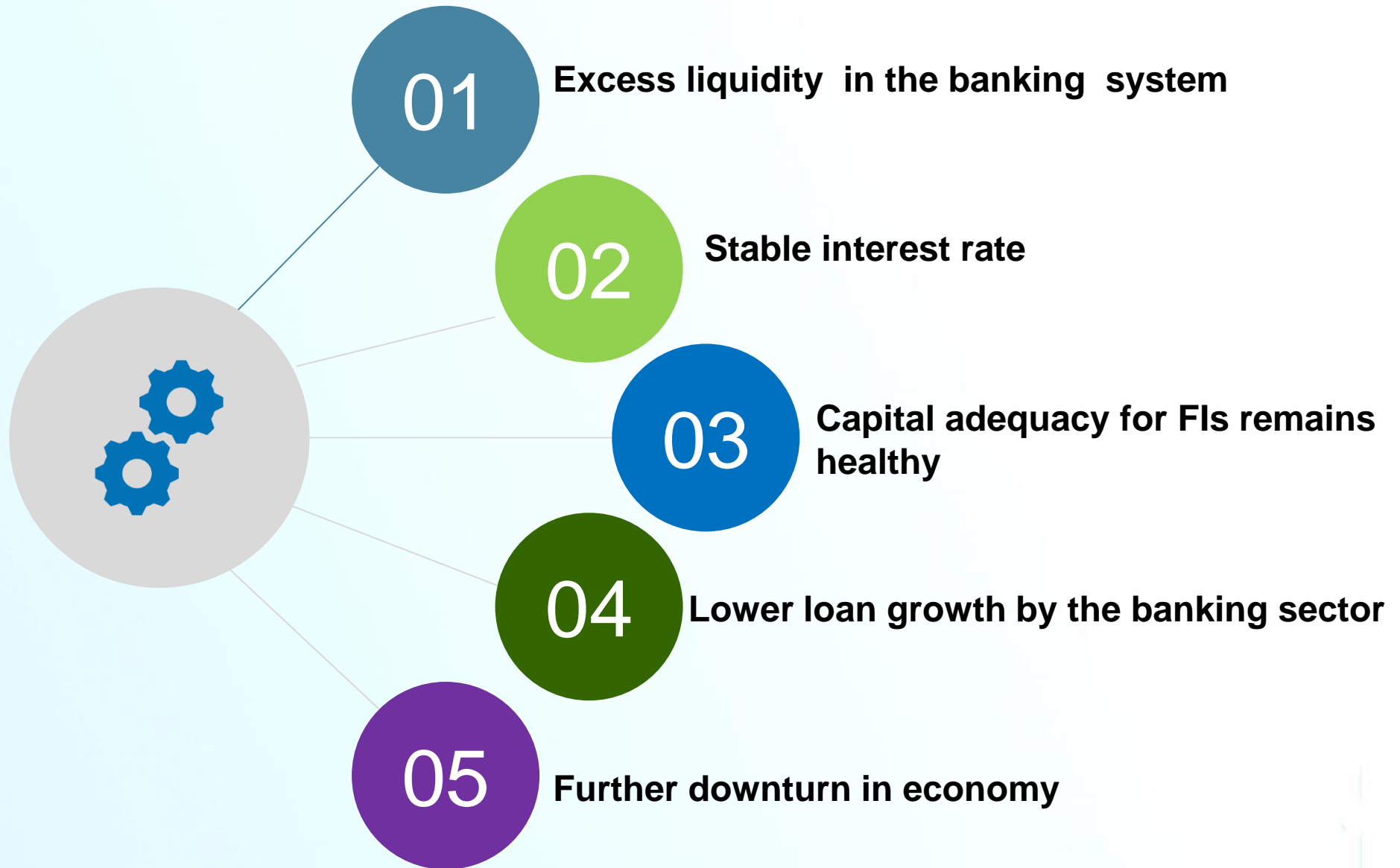
- Implicit: Through Central Bank of Malaysia's shareholding in Cagamas
- Explicit: Through incentives by government and regulators at the initial stage



CHALLENGES & ACHIEVEMENTS

Some of the challenges....

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Key Achievements

1	Cumulatively issued a total of RM312.1 bil (USD78 bil) bonds and sukuk	6	Developed and structured innovative Islamic financial instruments and solutions
2	Cumulatively refinanced housing loans in the secondary market worth up to RM142 bil (USD35.5 bil) or 1.9 million houses	7	Issued Malaysia's first Residential Mortgage-Backed Securities (RMBS) and world's first rated Sukuk Musyarakah RMBS
3	Provided guarantees for housing loans totaling RM2.1bil (USD0.5 bil) , enabling 9,840 individuals/households to own their first home under My First Home Scheme and Youth Housing Scheme	8	Cagamas' model is well regarded by the World Bank as a successful secondary mortgage liquidity facility
4	Establishment of US\$5bil Conventional and Islamic Multi Currency Euro Medium Term Note Programme (EMTN) in 2014	9	Executed ASEAN's first synthetic securitisation of SME loans and issued secured Credit Linked Notes
5	Maintained local credit rating of AAA by RAM and MARC , denoting its strong capitalisation, robust asset quality, stable profitability, prudent risk management and sound corporate governance	10	Issued inaugural RMB denominated bonds and settled via RENTAS





MOVING FORWARD

Moving Forward

1

To continue to support Government' initiatives in enabling housing access particularly in the area of affordable housing

2

To spearhead and be a catalyst in support of Government' initiatives to enhance the efficiency, functioning and diversification of the Malaysian debt capital market by providing capital market solutions particularly in the area of Islamic finance and environmentally friendly financial instruments

3

To continue to function as intermediary between primary lenders and investors of long term funds. It aims to enhance and support in the stabilisation of financial sector in the country

4

To be the main secondary liquidity facility in the country to support the growth of main contributing sectors to Malaysia GDP i.e. infrastructure/SME

5

To promote and replicate Cagamas business model in South East Asia to complement Malaysian financial institutions expanding abroad

6

To provide risk and capital management solutions to assist financial institutions in light of Basel III requirements






















AWARDS & ACCOLADES

AWARDS & ACCOLADES

 <p>Best Quasi-Sovereign Sukuk 2018</p> <p>Cagamas Dual Re-opening of Three-Year 475 Million Ringgit Sukuk And 525 Million Ringgit Sukuk</p>	 <p>Islamic Issuer of the Year- Quasi-Sovereign 2018</p>	 <p>OBPA BOND PRICING AGENCY MALAYSIA</p> <p>Top Bond Issuer - Conventional Top Traded Amount - Overall Top Traded Amount - Conventional</p> <p>2018</p>	 <p>Best Islamic Issuer-Quasi-Sovereign 2017</p>	 <p>Best Local Currency Sukuk 2017</p> <p>375 Million Ringgit Commodity Murabahah Sukuk</p>	 <p>OBPA BOND PRICING AGENCY MALAYSIA</p> <p>Top Trade Amount Overall Top Trade Amount Conventional Top Trade Amount Islamic</p> <p>2016</p>	 <p>GIFA GLOBAL ISLAMIC FINANCE AWARDS</p> <p>Islamic Finance Advocacy Award (Institutional) 2016</p>	 <p>Sukuk Summit 2016 AWARDS</p> <p>Outstanding Contribution for the Development of Shariah-Compliant Mortgage Securitisation 2016</p>
 <p>Best Local Currency Sukuk 2016</p> <p>Cagamas 500 million ringgit Commodity Murabahah sukuk</p>	 <p>Treasurer of the Year – Malaysia 2016</p>	 <p>Emas Status 2016</p> <p>Cagamas USD2.5 billion Multicurrency Sukuk Issuance Programme</p>	 <p>Best Corporate Sukuk 2015</p> <p>Cagamas RM70 million One-Year and RM930 million Three-Year Sukuk</p>	 <p>Best Issuer of the Year for Corporate 2015</p>	 <p>Emas Status 2014</p> <p>Cagamas Offshore Renminbi Medium Term Notes Issurance</p>	 <p>RAM LEAGUE AWARDS</p> <p>Market Pioneer Award for the World's 1st RMB-bond by a Mortgage Corporation 2014</p> <p>Cagamas RMB1.5 billion Offshore RMB Bond</p>	 <p>Achievement Awards FinanceAsia 2014</p> <p>Best Renminbi (Offshore) Offering 2014</p> <p>Cagamas RMB1.5 billion Offshore RMB Bond</p>
 <p>Best Foreign Currency Bond Deal of The Year 2014 in Southeast Asia 2014</p> <p>Cagamas RMB1.5 billion Offshore RMB Bond</p>	 <p>Best Deal- Highly Commended, Malaysia 2014</p> <p>Cagamas 3.8 Billion Ringgit Multi-Tenor Sukuk</p>	 <p>KLIF 2013 KUALA LUMPUR ISLAMIC FINANCE FORUM</p> <p>Most Outstanding Securitisation House 2013</p>	 <p>Highly Commended / Most Innovative Deal 2013</p> <p>Cagamas 500 million ringgit multi-tenor Sukuk Wakala Bil Istithmar</p>	 <p>Best Islamic Commodity-linked Murabaha 2011</p> <p>RM230 million Variable Rate Sukuk Commodity Murabahah</p>	 <p>Best Islamic Deal, Malaysia 2011</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p>Islamic Issuer of the Year 2011</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p>Sukuk Issuer of the Year 2011</p>

AWARDS & ACCOLADES (cont'd)

 <p>Islamic Deal of the Year</p> <p>2011</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p>Malaysian Innovation of the Year</p> <p>2010</p> <p>Cagamas RM5.0 billion Sukuk al-Amanah Li al-Istithmar programme (Sukuk ALIm)</p>	 <p>Country Deals of the Year</p> <p>2010</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p>Tawarruq Deal of the Year</p> <p>2010</p> <p>RM230 million Variable Rate Sukuk Commodity Murabahah</p>	 <p>Islamic Deal of the Year</p> <p>2010</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p>Tawarruq Deal of the Year</p> <p>2009</p> <p>Sukuk Commodity Murabahah RM915 million Medium Term Notes</p>	 <p>Most Innovative Deal of the Year</p> <p>2009</p> <p>Sukuk Commodity Murabahah RM915 million Medium Term Notes</p>
 <p>Most Innovative Islamic Finance Deal</p> <p>2008</p> <p>RM2.015 billion Sukuk Commodity Murabahah</p>	 <p>Islamic Issuer of the Year</p> <p>2008</p>	 <p>New Structured Finance Benchmark Deal</p> <p>2007</p> <p>Cagamas SME Berhad Synthetic Securitisation of RM600 million SME Loans</p>	 <p>Best Domestic Securitisation</p> <p>2007</p> <p>Cagamas SME Berhad Synthetic Securitisation of RM600 million SME Loans</p>	 <p>Asian Deal of the Year</p> <p>2007</p> <p>Cagamas SME Berhad Synthetic Securitisation of RM600 million SME Loans</p>	 <p>Malaysia Capital Markets Deal of the Year</p> <p>2007</p> <p>Cagamas SME Berhad Synthetic Securitisation of RM600 million SME Loans</p>	 <p>New Islamic Benchmark Deal</p> <p>2005</p> <p>Cagamas MBS Berhad RM2.05 billion Islamic Residential Mortgage-Backed Sukuk Musyarakah</p>
 <p>Islamic Finance Deal of the Year</p> <p>2005</p> <p>Cagamas MBS Berhad RM2.05 billion Islamic Residential Mortgage-Backed Sukuk Musyarakah</p>	 <p>Best Malaysia Deal Best Domestic Securitisation Deal Best Islamic Finance Deal</p> <p>2005</p> <p>Cagamas MBS Berhad RM2.05 billion Islamic Residential Mortgage-Backed Sukuk Musyarakah</p>	 <p>Best Malaysian Ringgit Bond</p> <p>2004</p> <p>Cagamas MBS Berhad RM1.55 billion Residential Mortgage-Backed Securities</p>	 <p>Best Local Currency Bond in Asia</p> <p>2004</p> <p>Cagamas MBS Berhad RM1.55 billion Residential Mortgage-Backed Securities</p>	 <p>Best Local Currency Bond Deal of the Year</p> <p>2004</p> <p>Cagamas MBS Berhad RM1.55 billion Residential Mortgage-Backed Securities</p>		

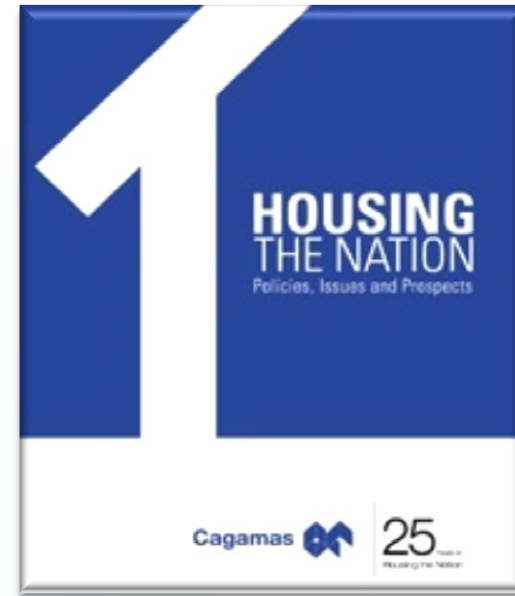
Cagamas Berhad (157931-A)

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www.cagamas.com.my



Thank you